COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 0211-01
Bill No.: HB 60
Subject: Property, Real and Personal; Taxation and Revenue-Property; Counties
Type: Original
Date: January 31, 2011

Bill Summary: Would limit the increase in assessed valuation of residential property by the percentage of increase in Social Security benefits for the elderly and disabled who own and live in the principal residence.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2012	FY 2013	FY 2014
Total Estimated Net Effect on General Revenue Fund	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2012	FY 2013	FY 2014
Blind Pension	$0	($33,000)	($33,000)
Total Estimated Net Effect on Other State Funds	**$0**	**($33,000)**	**($33,000)**

Numbers within parentheses: ( ) indicate costs or losses.
This fiscal note contains 9 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2012	FY 2013	FY 2014
Total Estimated Net Effect on All Federal Funds	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2012	FY 2013	FY 2014
Total Estimated Net Effect on FTE	**0**	**0**	**0**

☐ Estimated Total Net Effect on All funds expected to exceed $100,000 savings or (cost).

☐ Estimated Net Effect on General Revenue Fund expected to exceed $100,000 (cost).

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2012	FY 2013	FY 2014
Local Government	**$0**	**($6,600,000)**	**($6,600,000)**

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Office of the Secretary of State** (SOS) assume many bills considered by the General Assembly include provisions allowing or requiring agencies to submit rules and regulations to implement the act. The SOS is provided with core funding to handle a certain amount of normal activity resulting from each year's legislative session. The fiscal impact for this fiscal note to the Secretary of State's Office for Administrative Rules is less than $2,500. The SOS recognizes that this is a small amount and does not expect that additional funding would be required to meet these costs. However, we also recognize that many such bills may be passed by the General Assembly in a given year and that collectively the costs may be in excess of what our office can sustain with our core budget. Therefore, we reserve the right to request funding for the cost of supporting administrative rules requirements should the need arise based on a review of the finally approved bills signed by the governor.

Officials from the **Office of the State Auditor** and the **Department of Revenue** assume this proposal would have no fiscal impact on their organizations.

Officials from the **Office of Administration, Division of Budget and Planning** (BAP) assume this proposal would not result in additional costs or savings to their organization.

BAP officials assume this proposal would limit the increase in assessed valuation of residential property used as a principal residence by qualified taxpayers to the percentage of increase in Social Security benefits for the elderly and disabled. The proposal would limit the growth in revenues for the Blind Pension Fund, and would limit the growth in municipal revenues if levies are not otherwise adjusted.

Officials from the **Department of Elementary and Secondary Education** (DESE) assume this proposal would have no fiscal impact on their organization but could have a negative impact on local government revenues. DESE officials also assume there would not be any fiscal impact to the state school foundation formula.

ASSUMPTION (continued)

DESE officials stated that the legislation could have a negative impact on school district property tax revenue because those taxpayers who are aged 65 or over or disabled would have increases in their property assessments limited to the increase in their social security payments. While it is impossible to accurately calculate the loss in property tax revenue, it likely would be small in most districts. The loss in revenue would be the difference between reassessment growth and the percentage of increase in social security payments, if any, for a limited segment of taxpayers.

DESE officials noted that there could be increased costs to county government to implement this requirement, since additional information would be required from eligible taxpayers.

Officials from the **State Tax Commission** (TAX) assume this proposal would limit the amount of increase in assessed valuation for certain residential property owners who are 65 years of age and older or disabled, and receiving federal social security benefits, and have a federal adjusted gross income not exceeding the maximum upper limit of $72,380. This limit would be raised by the incremental increase in the general price level as defined by the Missouri Constitution.

The increase in assessed valuation for those owners could be no greater than the percentage of increase in the social security benefits in the previous year. According to the Social Security Administration there was no benefit increase in 2010 and there will be no no increase in benefits for 2011.

According to the 2000 census information 70.3% of the housing units are owner occupied and 22.4% of the householders 65 years of age and older. TAX does not have any information available on the number of property owners who are disabled and receiving benefits or regarding owners who have an income of less than the upper limit of $72,380. Therefore, we are unable to project the revenue impact of this proposed legislation. However, we offer the following information for consideration.

The 2010 assessed valuation for residential property is $51,027,627,759. TAX does not anticipate there will be any increase in the assessed valuation in 2011.

$51,027,627,759 x 70.3% (residential property owner occupied) = $35,872,422,314.

$35,872,422,314. X 22.4% (residential property owner occupied 65 years and older) = $8,035,422,598.

ASSUMPTION (continued)

TAX officials assume the proposal would become effective on August 28, 2011. The next reassessment year is calendar year 2013 with collections occurring in FY 2014.

Officials from the **City of Clayton** assume this proposal would have an adverse impact on their organization.

Clayton is a charter city with a total area of 2.5 square miles. Over 50% of the homes in Clayton are valued at $300,000 or greater. 15% of Clayton's population is over the age of 64 years of age. The per capita income of Clayton is in excess of $48,000.

Officials from the **City of Kansas City** assume this proposal could have a negative fiscal impact on their organization but such impact is impossible to quantify.

Due to a lack of available information about the number of taxpayers that would benefit from this legislation it would be very difficult to quantify the level of impact that it would have on City revenues. The administrative requirements placed upon taxing jurisdictions to track and correlate assessed values of individual properties with percentage increases in individual Social Security benefits could be onerous and burdensome to those jurisdictions as well as confusing to the retired and disabled individuals it is intended to benefit.

Officials from **Fair Grove R-X School District** assume this proposal would have an impact on every school district in the state by limiting the amount of local tax revenues for the districts.

Officials from the **St. Louis Public Schools** assume this proposal would have no fiscal impact on their organization because any impact due to lower assessed valuation would be made up via a tax levy adjustment.

Oversight will use the TAX estimates of residential assessed valuation. Oversight notes that the United States Census Bureau reported that 13.6% of Missouri residents were aged 65 or older, that 80.6 percent of householders age 65 and older were owners in the third quarter of 2010, and that 83.1% of householders aged 65 and older had income lower than the program upper limit of $72,380. Finally, Oversight was not able to locate United States Census Bureau or other housing data for handicapped persons but we believe the additional impact due to handicapped persons would be minimal.

ASSUMPTION (continued)

Accordingly, an estimate of the fiscal impact of the proposal could be calculated as follows.

A. The 2010 assessed valuation for Missouri residential property was $51,028 million.

B. The percentage of Missouri residents who would be age, ownership, and income eligible for this program would be (13.6% x 80.6% x 83.1%) = 9.1%.

C. Therefore, the assessed valuation of residential property eligible for this program would be ($51,028 million x 9.1%) = $4,644 million.

D. The tax on those eligible properties would be ($4,644 million/$100 x $6.27) = $291.2 million.

E. From 2010 through 2010 the annual Social Security benefit cost-of-living increase has ranged from 0% in 2010 and 2009 to 5.8% in 2008. The five-year and ten-year average increases are 2.28% and 2.43% respectively.

F. If the Social Security cost-of-living increase was 2.28%, taxes for those eligible properties would increase ($291.2 million x 2.28%) = $6.6 million per year.

G. Oversight assumes that the revenue reduction for the Blind Pension Fund would be approximately one-half of one percent of the local government revenue reduction ($6.6 million x .005) = $33,000.

Oversight notes that this proposal includes:

* Provisions to index the upper income limit for this program to the increase in the general price level, which would tend to increase the number and valuation of eligible properties and increase the impact of the proposal.

* Provisions to limit increases in the assessed valuation of eligible properties to the percentage increase in Social Security benefits. Increased Social Security benefits would therefore tend to reduce the impact of the proposal.

ASSUMPTION (continued)

Oversight also assumes this proposal would become effective in August 2011 after the completion of 2011 assessments and would become effective for 2012 assessments, resulting in a loss of revenue starting with FY 2013.

Oversight notes that the maximum calculated impact would occur only if local governments are unable to increase their tax levy rates to recover the loss of assessed valuation associated with the limitations on assessed valuation of eligible property. If local governments are able to increase their tax levy rates to recover those losses, this proposal would likely shift the property tax burden from eligible residential property owners to other residential property owners, and to agricultural and commercial property owners.

Oversight has reviewed the available information as to current levies and maximum authorized levies for local governments, and we noted that certain local governments would have the ability to increase their levy rates beyond current levels. Oversight does not have any information as to the current valuation or location of properties which would be eligible for the proposed limitations, nor do we have the information that would be required to determine which local governments could increase their levy rates to recover the loss of assessed valuation associated with this proposal.

Finally, Oversight notes that increases in residential assessments, the general price level, and Social Security benefits have not occurred in recent years, but could occur within the planned life of the program. For fiscal note purposes only, Oversight will indicate the calculated fiscal impact for this program.

FISCAL IMPACT - State Government	FY 2012 (10 Mo.)	FY 2013	FY 2014
BLIND PENSION FUND			
Revenue reduction - assessed valuation limits	$0	($33,000)	($33,000)
ESTIMATED NET EFFECT ON BLIND PENSION FUND	**$0**	**($33,000)**	**($33,000)**

FISCAL IMPACT - Local Government	FY 2012 (10 Mo.)	FY 2013	FY 2014
LOCAL GOVERNMENTS			
Revenue reduction - assessed valuation limits	$0	($6,600,000)	($6,600,000)
ESTIMATED NET EFFECT ON LOCAL GOVERNMENTS	**$0**	**($6,600,000)**	**($6,600,000)**

FISCAL IMPACT - Small Business

No direct fiscal impact to small businesses would be expected as a result of this proposal.

FISCAL DESCRIPTION

The proposed legislation would limit the increase in assessed valuation of residential property by the percentage of increase in Social Security benefits for the elderly and disabled who own and live in the principal residence.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Office of the Secretary of State
Office of the State Auditor
Office of Administration
    Division of Budget and Planning
Department of Elementary and Secondary Education
Department of Revenue
State Tax Commission
City of Clayton
City of Kansas City
Fair Grove R-X School District
St. Louis Public Schools

Mickey Wilson

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